

CHAPTER SEVEN

From autarky to the European Union: nationalist economic policies in twentieth-century Spain

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INTRODUCTION

Discussions related to the concept of nationalism have given rise to a great deal of recent academic work not only in Spain but also in most of Europe. Part of this is due to the fall of the Iron Curtain, which has led to the kindling of nationalist cinders still alive in former eastern European countries. A second element has been the growing federalism in western Europe. More and more decision-making power has been delegated either to a supranational or to a municipal level, thereby putting national policies into jeopardy. The different formulae of nationalism that have evolved in the past have led to additional confusion relating to the concept itself. A minimal definition of nationalism includes at least four overlapping meanings: patriotism, a world order based on the right of each nation to determine its policies unhindered by others, a struggle for national independence, and a system demanding national conduct of all industries. Each of the above phenomena is present to some extent in the recent history of Spain, although it is perhaps the latter one which best defines the most determinant of the four: 'economic nationalism' – a strain that went hand in hand with economic backwardness in Spain throughout part of the nineteenth and most of the twentieth century.

The concept of nationalism has evolved considerably in the last two centuries. Originally, the French revolutionaries put the nation before the patrimonial state of the absolute monarchy. The *nation* therefore was the embodiment of popular sovereignty, the set of free, equal and fraternal citizens. From this a new ideology was created during the nineteenth century, to promote the political and social cohesion of newer nation states such as Italy and Germany or to contribute to the socio-economic unification and integration of peripheral states such as Poland, Hungary or Spain. In both cases it had a common function –

detracting attention from internal conflicts, be they of an ethnic, social, political, regional or economic nature. The driving force behind nationalism aimed at establishing a common identity with which to overcome the antagonisms of opposing forces such as traditionalism and modernism, capitalists and proletarians, centralism and regionalism, and other centripetal and centrifugal struggles that arose in the absence of absolutism and with the rise of reason.

Spanish nationalism can be characterised in this sense, although over time Spain has also developed a secondary strain of nationalism – regional in nature – located in the Basque country, in Catalonia and more recently in Galicia and Valencia. These are autonomist, separatist or independentist movements of geographic regions of the peninsula limited to those areas. Such regionalisms have contributed and may still contribute to reinforcing central economic nationalism.

THE SHAPING OF NATIONALISM

The more immediate origins of Spanish nationalism can be situated at the end of the eighteenth century. Geographical proximity and political affinity generated a great interest for the social and political happenings in France, which in turn were bound to shake the fundamental pillars of the *ancien régime*: the monarchy, the Church and the existing social ties. Joseph Bonaparte's assumption of the Spanish crown and the occupation of Spain by the French army led to a 'war of independence' against France, which united the geographical area of Spain under the common goals of freedom and sovereignty. The struggle against the common enemy united forces – those in favour of simple restoration with those in favour of a more liberal political system with sovereignty placed in the hands of the people. This unanimous and spontaneous expression of sovereignty in defiance of French occupation was the first declaration of national unity for a geographical area that had been – until then – the centre of an empire ruled by a sovereign king.

A decade later, with the loss of its colonies, Spain had evolved *de facto* from an empire to a nation but with elements of social and political discord increasing throughout the century. Feudalism had been dissolved, freedom from *mortmain* both in ecclesiastic and common land could have left a reserve army of industrial labour – a precondition for industrialisation and modern agrarian production. Unfortunately, agrarian modernisation remained strongly limited by low soil quality, exiguous average rainfall, transhumant institutions; all these factors

made technologies developed in northern and central Europe inappropriate for Mediterranean agriculture, and agriculture remained stagnant.¹

The unification of Spain had not been a product of economic integration and the natural formation of a national market but rather the result of a century of administrative centralism, the war against France and the creation of an army. The railway network, public education, conversion to the metric system, common law, and monetary and fiscal reform were steps taken throughout the nineteenth century towards the gradual integration of markets while avoiding radical reform.

THE ORIGINS OF PROTECTIONISM

This process of nation-building was tied to that of constructing a high wall of protectionism. The seed of tariff protection flourished under liberals and absolutists during the first half of the nineteenth century. Liberal, free-trade economic policies in Spain between 1869 and 1891, however, followed the well-beaten path of similar policies in Europe. The liberal two-tier tariff system introduced by the Tariff Law of 1869 (usually known by the name of its sponsor, the then Finance Minister Laureano Figuerola) combined a lower tariff system – no prohibitions and an average protection of between 20 and 35 per cent – with a mechanism of bilateral trade agreements which allowed Spain twenty-two years of trade expansion and substantial foreign investment. Article 5 of the Figuerola Tariff Law established a gradual reduction of tariff protection to a maximum 15 per cent level to be reached by 1881.

In the early 1860s French entrepreneurs contributed to the development of the nascent Spanish banking system, while channelling foreign funds into railway construction.² A ten-year exemption on railway material and rolling stock established by the Railway Law of 1855 provoked an outcry about lost opportunities for the Spanish iron industry. The ‘millions made by foreigners’ thesis was to become one of the keystones of nationalism and of putting the blame for backwardness on others.

Even so, a few Spaniards had amassed fortunes during this period. The iron-ore mining elite in Biscay fed the Bessemer boom in Europe and the United States, wine merchants quenched phylloxera-stricken markets in France, and Catalan textile producers wove a tight net on colonial markets. But by the late 1880s the period of export-led growth

was seen as coming to an end as the protectionist tide swept over Europe and foreign markets closed to Spanish products. The Great Depression (1873–95), the massive imports of overseas grains and rearmament had led Europe to a return to protectionism. Germany, Austria-Hungary, Italy, Switzerland, Sweden, Portugal, Belgium, Russia and France raised barriers before Spain tardily set out to follow their example. The renewal of tariff protectionism in Spain was initiated with the Royal Decree of 31 December 1891. This new regulation increased the general level of tariffs substantially but maintained two important exceptions: low tariffs on the imports of railway materials and debenture of duties paid on ship-building materials.

THE QUESTION OF NATIONAL DEFENCE

In the world arena liberalism was losing its momentum and the ghosts of self-sufficiency, expansionism and state intervention took flesh anew in the last decades of the nineteenth century. Modern imperialism and revolutionary changes in arms technology were upsetting the balance of power.

Rising political unrest in Cuba reinforced these rearmament policies in Spain. In 1887, a plan was drawn up for constructing a modern naval force; the navy asked for the construction of three cruisers by the national industry. A new shipyard was built to this end in Bilbao, the centre of Spain's iron and steel industry. Astilleros del Nervión was the first attempt at creating a modern shipyard to diminish the need for imports from France, Germany and Great Britain. And even though its overdimensional installations and undercapitalisation doomed it to failure, it none the less established a precedent that was followed in the future.

The ties between the bourgeois 'triumvirate' – Catalan textile production, Castilian agriculture and Biscayan heavy industry – tightened as foreign products threatened to invade their terrain and political and social unrest made them reconsider the differences amongst them. Reserving home markets for Spanish producers should provide a guarantee for income, employment and benefits, and so it became the battle cry of industrialists and landowners. Clientelism and the remnants of other more traditional forms of political control (such as *caciquismo*, the Spanish version of the rotten boroughs and the spoils system) exerted on behalf of landowners, the commercial bourgeoisie and the *nouveau riche* industrialists all converged into more centralised forms of corpor-

atist organisation. The Fomento del Trabajo Nacional (Promotion of National Work, an association of Catalan textile industrialists that widened their field of political influence to the national arena in 1889) and the Liga Nacional de Productores (National League of Manufacturers, formed around iron and steel industrialists in 1893) were the main regional employer associations early on and created a common platform for their new economic policy. Other intra-regional associations were soon to follow: the Spanish Maritime League (1900), the National Coal Mine Association (1906) and the Iron and Steel Syndicate (1907).

Profit maximising was attained by political lobbying. First, infant-industry protection was requested in order to overcome initial technological backwardness and to compensate for the difficulties of first establishment; little by little, increases in the coverage and scope of these measures were asked for to defend newly gained market positions or situations in which foreign competition threatened. These policies included tariff barriers, direct benefits, tax cuts or subsidies, preferential interest rates, collaterals for loans, and administrative favours. When these turned out to be insufficient, the state mandated consumption quotas for home production and subjected industry to a system of regulations, authorisations and record-keeping. Thus, tariff protection, administrative intervention and corporatist organisation overlapped in a crescendo of nationalist economic policies.

The loss of Spain's last colonial possessions – Cuba and the Philippines – in 1898 entailed a minor economic loss and a major political impetus to economic nationalism in Spain. 'Defeat at the hands of a foreign army becomes a powerful excuse and a basic reference for identifying the enemy and setting the limits of national image. This helps not only to sanctify the nation and the national project, but also to enhance the nationalistic sentiments and to cement the State's central place as the project leader.'³ Political, economic and military regeneration was placed foremost on the political agenda. Rebuilding a modern navy fleet, and Spain's imperialist incursion into Morocco between 1909 and 1925, were both endeavours intended to increase Spain's standing on the European stage.

THE CONSOLIDATION OF PROTECTIONISM

Spain never came round to applying Article 5 of the 1869 Figuerola Tariff Law whereby the maximum level of tariff duties would be 15 per cent. It

was suspended on numerous occasions and finally revoked in 1890. In December of the following year, Spain took a firm step on the road to autarky with the Tariff of 1891 and the revocation of most of its bilateral trade agreements. When the draft for a new trade agreement being negotiated between Spain and Germany was anticipated as becoming a precedent for tariff reduction via bilateral agreements and the most-favoured nation clause, the pressure group of the industrial north called for support. Before its approval in the Cortes in 1894, a lobby of more than thirty parliamentarians conducted press campaigns, rallies and continuous political agitation, which led to abandoning this or any further treaty that might threaten what a German contemporary observer called the 'Chinese Wall' of Spanish tariff protection,⁴ at least for the time being. Two years later, metalworking industrialists obtained the abolition of the special duties on railway equipment in practice since 1855.⁵ A new tariff hike in 1898, a higher and new tariff in 1906 and the reduction of the last bastion of tariff-free trade – debenture on duties paid for raw materials and equipment used in ship-building – in 1909 consolidated the 'necessary and sufficient' level of protectionism in Spain.⁶

Both the 1891 and 1906 tariffs were nominally high tariffs – the highest in Europe in 1906. But they must be considered moderate in terms of effective protection; Spain's weak position in trade agreement negotiations forced it to concede partial reductions for the large majority of the products it exchanged with its primary trade partners. Few alterations affected this trade policy framework up to the Civil War, with only one further increase in duties in 1922, which made Spanish tariffs come to be regarded as the highest in the world in nominal terms by 1926.

INDUSTRIAL POLICY

The Villaverde stabilisation plan of 1899 was intended to put an end to inflation, budget deficits and large increases in banknote circulation, all of which were due to the Cuban war (1895–8). The plan imposed the principle of a balanced budget, the reduction of public debt and tax reform, which were combined with a restrictive monetary policy and put a halt to inflation and peseta depreciation. It was totally successful. In the atmosphere of price stability that ensued, the agricultural and industrial lobbies kept up mounting pressure for higher degrees of state intervention.

In 1907 a Law for the Protection of Industry reserved public contracts to Spanish producers. The Commission for the Protection of National

Production was created as a watchdog of this new regulation and it soon evolved into a back-seat driver of nationalist industrial policy. Two years later, in 1909, a law was passed for promoting maritime communications and ship construction. This included an important renewal of the system of subsidies for shipping and ship-building linked to a step-by-step reduction of foreign capital and foreign technicians as a precondition. That same year an industrial giant was born. The Sociedad Española de Construcción Naval – future monopolist of Spanish naval constructions and dominant firm in merchant ship-building up to the Civil War – was a joint venture between British armament firms (Vickers, Brown and Armstrong) and several Spanish industrialists and bankers. It was intended to carry out the reconstruction of the Spanish fleet (after its destruction in Santiago de Cuba and Manila in 1898), a 200 million peseta (some £7.4 million) project that had defeated the plans for an integrated system of irrigation and water supply for Spanish agriculture in the Cortes.

Perhaps the need for foreign technical assistance dictated the status of pseudo-public enterprise that the Sociedad Española de Construcción Naval acquired. After the original contract had been completed it received numerous new orders, although these were increasingly conditional on it being able to replace imports. The company invested 267 million pesetas in twenty years in order to comply with the navy's goals of self-sufficiency and the 'nationalisation' of naval defence material – from submarines to ammunition – in exchange for a constant backlog of orders.⁷

The First World War provided a favourable series of circumstances for furthering the process of economic nationalisation. As Spain remained neutral in the conflict, its economy prospered thanks to high international prices, underproduction in Europe and lack of competitors. The process of import substitution received a strong boost from shortages due to the war. During these years legislation promoted the nationalisation of foreign assets; as a consequence most of Spanish public debt bonds abroad, which drew interest paid in gold, were bought up by Spanish citizens who thereby found a refuge against war inflation. Tax exemptions also facilitated the purchase of Spanish firms' equity by Spanish nationals.⁸

Industrialisation by import substitution also received a boost with the new Law for the Protection of National Industry, approved in March of 1917, whose general aim was to protect industries which had been established during the war and which felt threatened with the return to

normalcy. The protection of the law was actuated through tax exemptions, postponement of tax payments, tax and tariff reductions, preferential interest rates and guaranteed dividends. A new official bank – Banco de Crédito Industrial (BCI) – was established in 1920 as the main agent of the 1917 Law. The new bank's mission was to channel credit at favourable conditions to industrial firms. In June of 1918 another law decreed that all defence material purchased by the state should be produced by Spanish firms; and in June of 1921 the mining industry was 'nationalised', in the sense that mining companies had to be registered in Spain, their foreign employees limited to one third of the total and all their equipment had to be manufactured in Spain. All this was less earth-shaking than it sounds, as Río Tinto, Tharsis and many other large foreign concerns went on with business as usual, but it shows the obsession with 'nationalisation' in government circles.

The exposure to postwar European competition threatened the survival of many of the companies created during the war. Shallow markets and lack of experience originated low economies of scale, scope and speed so that the majority of these firms were not able to compete even under the umbrella of the 1906 tariff. Inflation, shortages and speculative hoarding, combined with growing labour unrest, had driven wages and other costs up during the war. Price and wage stickiness increased the problem of competitiveness, so that additional tariff protection was required and provided by the new tariff law of 1922 to guarantee the survival of the nationalist economy.

The Primo de Rivera dictatorship (1923–9), far from complying with what Wicksell termed as the Pareto-optimum 'benevolent dictatorship', provided some degree of political stability, increased the extent of state intervention in economic matters, and pursued nationalist economic policies further. One of its novelties was an extensive public works programme. Road construction and maintenance picked up strongly, tripling the amounts spent the decade before. Railway investment quadrupled with respect to the previous decade (the 1910s) with 31 per cent of that investment being financed by public institutions and instruments. The construction of dams and harbour installations surpassed all previous levels.⁹ In an attempt to replace the monarchy's economic and political corruption, the dictator strove to create a new corporatist structure to substitute for the old order. By July of 1926, Miguel Primo de Rivera had initiated a process of industrial modernisation and concentration with growing regulation of enterprises. In September a regulatory board for national industry had been created. Concern was

growing among policy makers about whether private initiative alone could foster growth and development in Spain.¹⁰

Another distinctive trait of economic policy under the Primo de Rivera dictatorship was the expansion of the state banking system. To the Bank of Spain (1782) and the Banco Hipotecario (1872), the Banco de Crédito Industrial had been added in 1920 and reformed in 1926 and 1927. This was considered insufficient, and several other credit institutions were created. The Banco de Crédito Local was founded in May of 1925 and was oriented towards financing local and municipal administrations; the Banco Exterior de España was created in August of 1928 and designed to service Spanish firms dealing in foreign markets; other minor sectorial credit institutions were created for fishing and for agriculture.

Some of the state monopolies, such as postal communication, salt, tobacco, gunpowder and matches, dated back to the seventeenth century. During the first third of the twentieth century, income from the traditional monopolies followed a downward trend and their weight in total revenues was declining at the same time. In order to compensate for this decline a new monopoly was created: that for the distribution and refining of petroleum. This puzzling monopoly (Spain did not itself produce a drop of petroleum) was the pet project of José Calvo Sotelo, finance minister under Primo de Rivera and one of the most remarkable economic nationalists in Spanish history. The monopoly, decreed in 1927, was a tax-farming device: the farmer was a newly created company, the *Compañía Arrendataria del Monopolio de Petróleos S.A.*, (CAMPSA, or Company for the Leasing of the Petrol Monopoly). CAMPSA, whose life extended until Spain's entry into the European Union, was a quintessential nationalist creation, explicitly intended to prevent Standard Oil and Shell from making profits in Spain and, if possible, to find petrol in Spain and develop a refining and petrochemical industry, a distribution network and so on. In his memoirs, Calvo Sotelo relates with relish his cavalier treatment of Sir Henry Deterding, then head of Royal Dutch-Shell, when Deterding paid him a visit to try to dissuade him from establishing the oil monopoly. Calvo Sotelo saw himself as the representative of a small but proud nation teaching a lesson to an international plutocrat. All in all, it can be shown that the oil monopoly was not a good idea. It did not yield as much revenue as ordinary taxes could have, the service CAMPSA gave consumers was dismal, and it also produced exactly the opposite effects of those intended by Calvo Sotelo; as a monopolist, CAMPSA was not interested

in prospection or in risking its capital in petrochemicals or even in refining, and so not only did it drag its feet on all these endeavours, but it did all it could to prevent other companies from doing it.¹¹

The Second Republic (1931–6) did not bring about a radical swing back to *laissez-faire* free-market economics but rather continuity in the growing interventionism in economic affairs. The priority of the new governing groups was to reform the socio-political and economic life of Spain but this affected the existing degree of economic intervention to a very small degree. It definitely increased the amount of regulation – especially for labour markets, banking, foreign trade, armaments and to some extent railway transportation. The public works programmes were maintained or increased. Even the oil monopoly was retained, after considerable discussion.

In order to face the growing tensions – the economic tensions of the Great Depression, the social tensions of inequality and the political tensions of polarisation – Spain was to follow the same path as other nations in the first decades of the twentieth century. Russia, Italy, Germany and even the United States (the New Deal) had assumed more authoritarian systems of economic governance. There was a mounting demand for economic and political dirigism and in this the Spanish Republic clearly followed the general trend.

ECONOMIC POLICIES IN THE EARLY FRANQUIST PERIOD

Nationalist economic policies reached a paroxysm in Franco's Spain. Even during the Civil War (18 July 1936–1 April 1939) the Franco side, who called themselves the nationalists (*nacionales*), inaugurated economic policies of strong state intervention in the economy, consciously and purposefully imitating those of their Nazi and fascist allies in Germany and Italy. These policies were qualitatively different from those followed by prior regimes, also quite interventionist, in that the Franco government proclaimed total self-sufficiency – autarky – and the development of a powerful military industry as its avowed aims.

Agriculture was the area where these comprehensive nationalistic policies were first implemented. The body entrusted with the carrying out of these policies was the Servicio Nacional del Trigo (National Wheat Agency, SNT). The SNT was created by the Franquist junta during the war, in August 1937, just when the first harvest was about to be collected in nationalist Spain. Originally it was designed to exercise its control only over the wheat market (hence its name) but it soon

extended its purview to all grains and legumes, thereby extending its scope over the largest share of agricultural output.

The basic idea behind the SNT was that Spain could and should be self-sufficient in wheat. The main worry of Franquist officials was that there could be a wheat glut. In the early 1930s there had been serious fluctuations in the wheat market due to a number of miscalculations under the Primo de Rivera dictatorship and under the republic. After the shortages of 1931 two bumper harvests in 1932 and 1934 depressed prices even further in a domestic market already depressed by international conditions. This alarmed farmers and increased their discontent and their opposition to the republic. In this context the nationalists championed state intervention in order to sustain prices, with the twin aims of proving the superiority of their methods and of consolidating the support of farmers to the Franco side. The SNT, therefore, was charged with purchasing the whole wheat crop at prices fixed by the Ministry of Agriculture, of which the SNT was a branch, albeit with a considerable degree of autonomy. The SNT then resold wheat to the milling industry at prices also established by the government, and which the millers had to accept, since the SNT was the only legal seller of wheat.

The wheat prices established by the government were on the low side, for two reasons: first, they did not want the main staple in the diet, bread, to be expensive, secondly, since they were afraid of overproduction, they did not want to stimulate it with high prices. Their forecast turned out to be mistaken: shortages ensued. In order not to sell at low official prices (inflation was high during the war, and it continued during the 1940s), farmers started sowing other crops that they could sell freely. The SNT then tried to gain control over new products in order to prevent farmers from evading the agency's control. Soon it was fixing prices even for birdseed. The consequence was a general decline of agricultural output (at least of officially declared production). Those years were remembered in Spain as the 'hungry years' (*los años del hambre*).

Wheat and corn (maize) harvests remained below their prewar level until well into the 1950s. Wheat output in particular remained at two thirds of the prewar per capita volume. Franco's government attributed the desperate situation to a 'pertinacious drought' and resorted to food rationing. The shortages were partially remedied by food imports and by the black market; food rationing and the black market remained active until the mid-1950s. Imports were expensive and difficult during the Second World War, especially since Spain was viewed as an ally of the

Axis powers. The isolation of the Franco regime after the war and its chronic commercial deficit aggravated the food situation, which was palliated by a commercial agreement with Argentina (1947–8), whose dictator, Juan Perón, sympathised ideologically with Franco. The pervasiveness of the black market during those years has made some historians think that the real agricultural output was larger than official figures indicate. In any case, the black market was in fact tolerated by the authorities, as it was a way of contenting both buyers and sellers. This toleration, however, was a tacit recognition of the failure of the regime's agricultural policies.

A question comes to mind: why were these obviously mistaken price policies not rectified? In fact they were, but not until the mid-1950s. If rectification did not come earlier this was probably for several reasons. First, these policies were ideologically motivated, and the winners of the war were not inclined to recognise their errors – all the more so since, in a dictatorship, popular discontent finds few channels of expression. Secondly, the authorities were afraid that letting agricultural prices rise would worsen the inflationary situation. And thirdly, the black market arrangement was, in the end, agreeable to large landowners, who were among the staunchest supporters of Franco; they benefited by selling at higher than official prices, and they were the ones who had the means to buy the co-operation of the officials and to operate semi-clandestine transportation and distribution networks.

Industrial policies were even more imbued by principles of state intervention, economic isolation and autarky. The man who inspired and put into practice these policies was Juan Antonio Suanzes, a naval engineer of extreme views: his radical nationalism had xenophobic overtones, he mistrusted economic liberalism, favoured state intervention and considered industrialisation as being the only way to nation-building and real national sovereignty in the world arena. During his professional life he had occasion to work at the orders of foreign, especially British, engineers, and developed a strong dislike of them, blaming them for the ills of Spain as intruders and agents of hostile interests.¹² Suanzes joined Franco's first cabinet and became Minister of Industry and Commerce in the early years of the Franco regime and at other times. He remained one of the most influential figures in government circles until the early 1960s.

Industrial policies and legislation after the Civil War were directly inspired by Suanzes, who at that time enjoyed the full support of Franco. The twin preoccupations of Suanzes in the immediate post-civil war

period were national economic – and hence political – independence, and reconstruction after the ravages of the war. It has been remarked by several historians that the Civil War damaged more dwellings than factories. In fact, in many areas and sectors factories survived the war in a better state than they had before the hostilities, because forced idleness permitted repairs that were not undertaken in busier times. One could safely say that Spanish industry was more affected by obsolescence and lack of imported parts than by material destruction during the Civil War. At any rate, the obsession after the war was reconstruction and production at any price, while the ultimate aim was political independence from more advanced nations. Of course, a requisite for national independence was thought to be the development of the military industry and the exclusion, or at least a strong limitation, of foreign enterprise. Early industrial legislation in post-civil-war Spain was intended to stimulate the private sector to rebuild and develop while investing in sectors that were considered as preferred by the government and keeping foreigners away from posts of control.

These were the aims of two laws issued on 24 October and 24 November 1939, which were accompanied by some other ancillary measures. The first of these laws (for ‘protection and development of new industries’) proclaimed in its preamble the need ‘to redeem Spain from the importation of exotic products which can be made or manufactured within the realm of our Nation’. Its main thrust was the establishment of a new category of industries of ‘national interest’. When a firm or a sector was so declared by the state it automatically obtained access to a series of considerable advantages, such as the right to expropriate land, to obtain substantial tax reductions and import facilities, to receive soft loans, and even to have a minimum guaranteed profit. The possibility also existed that the state might declare compulsory the consumption by other firms of the products that had been declared ‘of national interest’. The second law (for ‘regulation and defence of industry’) divided industries according to their military value and established rigid state controls over the sector: permits were needed to establish an industrial firm, to expand it or to change its location. No more than 25 per cent of the capital of an industrial firm could be owned by non-nationals. The law again gave the state the power to enforce the use of certain industrial products in the market; it also empowered the state to fix prices, and to make it compulsory for government agencies to purchase only Spanish products. These laws, accompanied by a dense network of ancillary measures, met with total

failure. What the legislator thought was encouragement of 'national' industry turned out to be the kiss of death. Combined with an iron grip upon foreign trade, these policies left little margin for entrepreneurial discretion. Several other factors explain the lack of industrial response: the population was impoverished, savings – and hence loanable funds – were scarce, and so were petroleum and other power sources; on top of all this, the onset of the Second World War introduced an element of uncertainty and aggravated the difficulties of provisioning.

The Spanish authorities, however, blamed the private sector for industrial stagnation. The decision was taken to create another state agency, the Institute of National Industry (Instituto Nacional de Industria, INI),¹³ which was established by a law of 25 September 1941. INI was modelled upon the Italian IRI (Istituto per la Ricostruzione Industriale), which had been created in 1933 in order to acquire a large share of Italian industrial firms so as to avoid a banking crash, and thereafter became a gigantic public holding of industrial companies.

The basic ideas behind INI were the following. First, the industrialisation of Spain was indispensable and therefore had to be attained *at any price*. Secondly, the private sector was unable to achieve the desirable level of industrialisation because it was short of the 'spirit of initiative' and also because it was only moved by a myopic profit motive and lacked the requisite means of long-term investment. Thirdly, reliance upon capital and technology imports had to be rejected because they implied 'submission to the will of others, foreign intervention . . . Hence the need for firm state action, embodied in this case by the Institute [of National Industry].'¹⁴ The president of INI from its creation until 1963 was, naturally enough, Juan Antonio Suanzes.

Like IRI, INI became a large holding company: its main activity was the promotion of, or participation in, industries that its directors deemed worthy of support. From the mid-1940s one could speak of an 'INI group' of industrial firms in which the Institute owned a substantial share of equity, or all of it. INI specialised in basic industries, especially the power (petrol and electricity) and iron and steel sectors. It also had a strong presence in transport industries (automobiles, aircraft, ship-building, aviation), mining, chemicals, metalworking and mechanical manufacturing. Probably the INI firm that was best known abroad was the aviation carrier IBERIA, but many INI firms were well known within Spain because they were huge by Spanish standards and employed thousands of workers; such was the case of the iron and steel firm Ensidesa, the automotive manufacturer SEAT, the petrochemical ENCASO, and

the electricity giant ENDESA, among others. Later on, especially during the 1960s and thereafter, INI acquired a series of private firms that were on the verge of bankruptcy, such as Altos Hornos del Mediterráneo and Altos Hornos de Vizcaya (iron and steel) or Hunosa (coal), which added to its smokestack giants, giving employment to tens of thousands and saddling the holding with staggering losses.

INI's effort was gigantic, but it must be asked whether it was not also misguided and wasteful. As has been pointed out,¹⁵ Suanzes had 'the mind of an engineer', for whom production was an end in itself regardless of cost (comparative, opportunity, or otherwise). Martín Aceña and Comín point out that it was an 'outstanding agent of import substitution' during the 1950s but that its 'strategy of autarkic and state-directed development led to inefficient resource allocation'.¹⁶ It is worth noting that in spite of INI's role of import substitution, and in spite of the xenophobia of its president, its propensity to import was also very high; this is logical, since autarky was largely a myth. All in all, although INI contributed decisively to the development of Spain's basic industries, the output of these industries was uncompetitive in international markets, and this was INI's Achilles' heel. As Donges¹⁷ put it:

product costs and prices tended to be high when compared with international levels. Therefore state firms who sold their basic outputs to other industries saddled the economic system with a relatively high level of cost . . . This turned . . . in detriment of the international competitiveness of Spanish industry . . . In the last analysis, it does not appear that INI may have contributed . . . to an efficient functioning of private industry or that it may have combated efficaciously the existence of monopolies.

The fight against monopoly was another role that INI could have played and never seems to have undertaken seriously. There are several studies showing that during the 1940s and 1950s there was a considerable degree of monopolisation in Spanish industry.¹⁸ The Spanish state contributed to this with its protectionism and with many laws which, on the pretext of economic nationalism, in fact restricted competition. There are three ways in which a state can fight monopoly: it may legislate against it; it may strike down those laws and regulations that favour it; and it may use public-sector firms to compete in monopolised sectors. Slowly and weakly the Spanish state, from the 1960s on, has employed the first two means, with some results. INI could have been the instrument for the third way, and at some times it was touted to be, such as when Ensidesa was founded, supposedly to break the monopoly of the Altos Hornos companies. In effect, INI has not only not been an effective

competitor in monopolistic sectors, but has often allied itself with its would-be rivals to maintain high prices or to obtain government support and in several cases it has played the role of a lifeboat for obsolete firms which were in trouble after protection had been lifted, by acquiring their assets at prices clearly above those of the market or by channelling funds to them. Such was the case with Hunosa, which grouped a number of uncompetitive coal-mining firms acquired in 1967, and of Altos Hornos del Mediterráneo and Altos Hornos de Vizcaya, the largest iron and steel private firms, which were in fact bought by INI in 1978 and 1981 respectively, after having been supported by the state through INI for many years (this was called the 'clandestine INI' by journalists).¹⁹ Thus, in fact, in this field INI has been doing exactly the reverse of what it was expected to do: not only not fighting monopolists, but aiding them in prosperity and in distress. It has thereby contributed to keeping prices high and Spanish industry non-competitive.

The policy of deep state involvement in industry and in agriculture required heavy outlays; hence the need for wide discretionary spending powers for the state and, therefore, for a very weak and subordinate central bank. The trend towards limiting the independence of the Bank of Spain had started with the Banking Law of 1931, and it belonged to a general international current generated by the Great Depression and the Second World War. The Banking Law of 1931 had greatly increased the control the government had over the Bank of Spain. This was achieved by the appointment by the Ministry of Finance of three board members, and by increasing the power the ministry had over the Bank's policies, especially the setting of interest rates. Banking legislation after the Spanish Civil War followed this same interventionist trend. It was consecrated in the Banking Law of 31 December 1946.²⁰ There were a series of features in this law that made monetary policy subordinate to nationalist agrarian and industrial policies. Spain was one of the few European countries that had never been subjected to the discipline of the gold standard, and this was confirmed in 1946, when the link between fiduciary circulation and the metallic reserves in the Bank of Spain was definitively broken. The bank's monopoly of note issuing was renewed and the control of the state over the bank reinforced through the direct nomination by the cabinet of the bank's governor, deputy governor and five members of the bank's council, plus an extension of the means of control that the Ministry of Finance had over the bank's policies (veto power, amongst others). The 1946 law also subjected the private banks to strict control (similar to that applied to industrial firms)

as relates to the establishment of new firms, expansion, and relocation (this is commonly called the '*statu quo* bancario'), and to the setting of interest rates. One of the openly stated aims of interest-rate controls was to ensure that they remained low, so as to encourage private investment and to allow the state to borrow at inexpensive prices.

The banking law also took exchange-rate policies out of the hands of the Bank of Spain and into those of a Foreign Currency Institute (Instituto Español de Moneda Extranjera, IEME), which in fact was a dependency of the Ministry of Industry and Commerce. This permitted the government to exercise strict control over exchange rates, which became a key policy instrument. Combined with quantitative controls over foreign trade (tariff rates became redundant), exchange-rate controls and multiple exchange-rate systems almost totally sealed the Spanish economy from international markets at the government's will. Insulation from foreign market 'contamination', of course, was essential for the autarkic policies of the early years of Francoism.

NATIONALISATION OF FOREIGN COMPANIES

Two interesting examples of nationalism in action were the 'nationalisations' of two foreign firms of long standing, the Barcelona Traction, Light and Power Company and the Río Tinto Company. The Barcelona Traction, familiarly known as 'La Canadiense', had been created in 1911 by the American engineer Frank B. Pearson; it was the main electricity supplier in Catalonia, and the owner of a substantial tramway and railroad network in Barcelona and its periphery. The distribution of its equity was extremely complex, as was the case with other electrical firms organised by Pearson.²¹ Although its seat was in Toronto, Canada (hence its popular name), most of its shareholders were British, German and, above all, Belgian. Its controlling packet soon fell into the hands of SOFINA, a German-Belgian holding company whose head was Daniel Heineman, an American financier with German origins. Due to war problems (the Spanish Civil War and its aftermath, then the Second World War), 'La Canadiense' was unable to pay interest on its debentures in the early 1940s, not for lack of cash-flow but due to problems in converting pesetas into other currencies. 'La Canadiense', whose public relations policies left something to be desired and whose accounting was extremely arcane, found itself pitted against the hostility of the Minister of Industry and Commerce in the late 1940s, none other than Juan Antonio Suanzes, whose feelings about submission to the will of others

and foreign intervention were, as we know, anything but friendly. Suanzes' ideas were known to Juan March, a colourful and astute Spanish financier, whose shrewdness and lack of scruples were by then legendary. March managed to harp on Suanzes' (and Franco's) extreme nationalist convictions to harass 'La Canadiense' and prevent it from paying its creditors. While doing this March was carrying on negotiations with Heineman trying to buy SOFINA's shares at a reduced price. In December 1946 Suanzes had made a speech in the Franquist Cortes about 'La Canadiense', where he had referred to the 'possible concomitancies of the [Spanish] red [i.e. republican] leaders, directly responsible of enormous crimes and of the injuries suffered by our country', with the directors of SOFINA and even with Paul-Henri Spaak, a Belgian politician who at the time was the secretary-general of the United Nations.

In spite of all this truculent language Heineman stood fast. March then put into practice his alternative plan. Some of his associates, owners of a relatively small number of Barcelona Traction's debentures, sued the company for bankruptcy on the grounds that it had not paid its debt for years. The suit was submitted in a small town, Reus, to make things more difficult to their opponents. A few months afterwards, bankruptcy was declared and an administrator was appointed, thereby depriving the company's managers of access to its premises, documents and so on. Some time afterwards, 'La Canadiense' was declared extinct and its assets sold in auction. They were bought at bargain prices by FECSA (Fuerzas Eléctricas de Cataluña, Sociedad Anónima), a recently created corporation whose main shareholder was none other than Juan March himself. The president of FECSA was Juan March's son and namesake.²² The case dragged in the courts for twenty years and in the end the International Court at The Hague was unable to produce a substantive verdict. Meanwhile, FECSA's profits had been accruing to its shareholders, largely Juan March and his heirs.

The Río Tinto Company had been exploiting one of the richest copper pyrite lodes in Europe since it acquired it from the Spanish government in 1873. Río Tinto made enormous profits in the period from 1884 to the First World War. Thereafter, with the fall in the price of ores in the 1920s, the world depression in the 1930s, plus the gradual exhaustion of the best veins, the profitability of the company was limited to rather exceptional moments of high copper and sulphur prices. After the Spanish Civil War, with Suanzes' extreme nationalist principles and dislike of Britons on the ascendant, Río Tinto was viewed in Spain as an 'economic Gibraltar', a phrase that was often used in the press and in government circles. The British company was rather unpopular in Spain

due to the exclusive Britishness of its managers, and to the toughness of its labour relations. During the 1940s the Río Tinto company was submitted to undisguised pressure by the Spanish government in an attempt to 'nationalise' it. The government control of prices, foreign exchange rates, and production and export quotas was used to coerce the company and induce it to sell.

There were serious problems in the government approach, however. First, by harassing the main producer and exporter of copper and sulphur in Spain, it was hurting the country's economy. Secondly, in the dire circumstances of the 1940s, the Spanish government lacked the wherewithal to purchase Río Tinto outright, and, while it tried to induce private companies to help INI in making an offer, nothing could be achieved. Río Tinto was not as profitable as it used to be, and its future depended largely on government policies, a fact which no doubt discouraged potential private investors. No Juan March appeared on Río Tinto's horizon. The possibility of expropriation was also contemplated, but British retaliation and international outrage were feared. Franco, who very much wanted to rescue Río Tinto, was characteristically slow in making a decision, in this case because he thought that delay played in his favour, as the company's value was bound to decline in time. In this, as in many other things, he was wrong. After long and tortuous negotiations, Río Tinto was acquired in 1954 by a group of the top Spanish banks, who, induced by the Spanish government and co-ordinated by the Governor of the Bank of Spain, purchased two thirds of its capital for a rather high price. The reasons for this deal were that earlier that same year an offer to purchase Río Tinto had been made by an American company (Texas Gulf Sulphur), and also that the Spanish government was afraid that a hard-nosed approach on its part would have provoked a second uproar after that caused by the rough treatment meted out to the Barcelona Traction Company. Thus the nationalist approach to 'nationalisation' of foreign companies was far from successful: due to the high-handed methods used in the case of Barcelona Traction, the prestige of the country was seriously hurt abroad; and in order to obtain a political victory, the purchase of Río Tinto was made in disadvantageous conditions.²³

EVOLUTION

The resounding failure of nationalist policies was apparent in the economic stagnation of the 1940s. Compared to the per capita income of other European countries, Spanish income hardly grew during this

period. The recovery of Italy, France and Germany after the Second World War was swift, whereas in Spain the per capita levels of 1935 (the last year before the Civil War) were not reached again until the mid-1950s. Ten years after the end of the Second World War, the Italian index of industrial output nearly doubled its 1940 value; ten years after the end of the Civil War, the Spanish index was below the 1935 level. The performances of France and Great Britain were closer to that of Italy: Spain's failure was the exception.²⁴

Spain started to grow in the 1950s. This was due to several factors: first, the pull of Europe's growth; secondly, a gradual loosening of the most extreme autarkist policies; thirdly, the onset of Spanish-American co-operation, which started in 1951 and was made firm with the Military Base Agreements of 1953. The dismantling of the most restrictive economic policies was initiated by a new cabinet in 1951, which did not include Suanzes who was replaced by two more flexible men (the Industry and Commerce Ministry was split into two); a better manager also became Minister of Agriculture. From then on the SNT started paying more realistic prices, and soon the problems were of overproduction of grains. But in essence, although somewhat mitigated, the nationalistic policies remained and their incompatibility with economic growth became obvious. Inflation shot up, worker unrest reappeared after more than ten years of quiescence, and balance of payments deficits became recurrent and menacing. After years of hesitation, autarky was officially abandoned as an objective in 1959, when a stabilisation plan, drawn up in agreement with the International Monetary Fund and the OECD, was put into effect. Most quantitative restrictions to international trade were abolished, together with multiple exchange rates. A new and very protectionist tariff was installed in 1961, however. A new Banking Law in 1962 partially removed some of the strongest controls over banking. Suanzes angrily abandoned INI in 1963, complaining in a letter to Franco about 'fundamental discrepancies'.²⁵ Thus, slow, cautious and partial liberalisation proceeded haltingly during the final fifteen years of the Franco dictatorship. The definitive abandonment of nationalist economic policies arrived with the democratic reforms after Franco's death in 1975 and the accession of Spain to the European Economic Community in 1986.

CONCLUSIONS

The balance of nationalist economic policies in Spanish twentieth-century history is an actively debated topic. Tariff protectionism has

been defended by some authors and criticised by others.²⁶ The same is true of the interventionist economic policies of the Primo de Rivera dictatorship. The extreme nationalist policies of the first twenty years of Franco's long rule (1939–75) have few defenders now, although a number of Franquist economists extolled them in their time. The issues are extremely complex. There is no doubt that the twentieth century has witnessed not only the highest levels of economic growth in Spanish history (this is true of many European countries) but also Spain's transition from backwardness to economic modernity. It is also true that this is the period when economic nationalism reached its highest levels in the country. Some will think that this coincidence implies causation. The opposite view is also possible: that nationalist economic policies were a hindrance rather than an agent of growth. There is some evidence in favour of this latter view, which seems the most plausible to us: growth was fastest in the periods after the relaxation of the most extreme nationalist measures: during the 1960s, after the liberalising policies following the stabilisation plan of 1959, and in the 1980s, after further liberalisation during the transition to democracy and in the early democratic years. It could even be argued that the recent (1997–8) high rates of growth are the consequence of the further liberalisation that followed the arrival of the Popular (centre-right) Party to power in March of 1996. Of course the subject requires and warrants further study. A careful comparison with other countries in similar circumstances (Italy, Portugal and Greece come readily to mind) could yield more positive conclusions.

NOTES

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